



## Douglas County Internal Audit

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July 13, 2012

Douglas County Board of Commissioners  
1819 Farnam Street, Suite LC2  
Omaha, NE 68183

Attention: Marc Kraft, Mary Ann Borgeson, Clare Duda, Mike Boyle, PJ Morgan,  
Chris Rodgers and Pam Tusa

Eric Carlson, Douglas County Purchasing Agent  
1819 Farnam St.  
Omaha, NE 68183

Dear Commissioners and Mr. Carlson:

I have completed an audit of Douglas County controls that were in place to conduct year-end physical inventories. The purpose of the audit was to assess the adequacy and effectiveness of the control processes used to conduct physical inventories at the county Garage and Warehouse. The audit revealed that, overall, controls were adequately designed and worked effectively except that the County has not defined what is obsolete or slow-moving inventory nor does it have a systematic means to identify these items for the warehouse.

### **Background**

As part of the fiscal year audit plan, Douglas County Internal Audit performs internal control testing for the Douglas County external audit firm, Hayes and Associates, LLC. The external auditor uses the test data provided by Internal Audit to formulate a professional opinion about the County's year-end financial statements. Below are the details related to tests of the controls in place for conducting the year-end physical inventories at the County Warehouse and Garage.

### **Objectives**

The objectives of the audit were to determine that controls were in place to ensure

- The completeness and accuracy of inventory records
- Accurate treatment of inventory movement during the physical count
- Slow or obsolete items are properly identified and priced at net realizable value

## **Scope and Methodology**

The audit included a review of the written procedures used to conduct the inventory as well as observation of the completion of the counts at the County Garage and the Warehouse. The audit at the Garage was conducted 6/7/2012 and the Warehouse 6/15/2012. The inventory observation included steps to ensure:

- Proper segregation of duties were maintained by the count teams
- Complete counting of all items and locations
- Proper treatment of any receipts or issuances of stock
- Proper identification and treatment of slow-moving or obsolete inventory

Additionally, fifty judgmentally selected inventory items (twenty-five from the warehouse and twenty-five from the garage) were test-counted. The test-counts were traced to the final inventory listings. The adjustment made for the Warehouse items was traced to the general ledger entry. The Garage adjustment is made at year-end. The net adjustment to inventory totaled (\$2,360). This amount consisted of positive and negative adjustments of \$1,628 for the Warehouse and (\$3,988) for the Garage. The total inventory amounts after adjustments were \$462,870 for the Warehouse and \$165,936 for the Garage.

## **Findings**

### **Identification of Slow-Moving or Obsolete Inventory**

**Criteria:** Inventory procedures should be in place to ensure that slow-moving or obsolete inventory items are properly identified and priced at net realizable value. Additionally, the inventory system should provide aging reports to aid in identifying slow-moving and obsolete inventory. This is particularly important for items where physical observation may not provide a clear indicator of age.

**Condition:** Inventory policy and procedures did not appropriately define what constitutes slow-moving and obsolete inventory or what to do with it once it is identified. An inventory aging report is not part of the standard reporting package in the Oracle system. This is a repeatable condition from the prior audit.

**Effect:** Although through observation of the counting it did not appear that obsolete inventory was included in the counts, it is possible that obsolete or slow-moving inventory may be included in the records due to the fact that some items may be difficult to identify as old or slow moving (e.g., canned goods), and that an aging report of the items could not be obtained. The inability to identify slow-moving or obsolete inventory could result in an overstatement of assets in the year-end financial statements. It could also result in inefficient use of space and money spent within the Garage and the Warehouse.

**Cause:** Written procedures for conducting the year-end inventories did not include steps to address slow-moving and obsolete inventory. Oracle did not have the functionality to produce an aged inventory for the Warehouse.

**Recommendation:** Draft inventory procedures that define slow-moving and obsolete inventory for the County for both the warehouse and the garage. The procedures should provide for identification of these types of items throughout the fiscal year. If feasible, use the new financial reporting package to develop an aged inventory report for the Warehouse that can be used throughout the year to help identify slow-moving and obsolete inventory.

**Management Response:** The Purchasing Agent has met with the Purchasing staff to begin the process of updating inventory procedures to address slow-moving and obsolete inventory for the County. Will work toward defining what constitutes slow-moving and obsolete inventory in the first quarter of FY 2013.

For the Warehouse Inventory Buyer Nicole Carlberg will continue to review both a **MIN/MAX Report** and a **Monthly Inventory Usage Report** to determine if a reorder or adjustment for expired goods is necessary. In the absence of existing Oracle functionality, I have requested that DOT.Comm expand the scope of the **Monthly Inventory Usage Report** to include all Warehouse items (currently only dietary). I believe this change will give us better visibility into inventory demand fluctuations and allow for personnel to take corrective action.

For the Garage I am working with staff to implement cycle counts for certain categories to assist in identifying slow-moving and obsolete inventory throughout the year. I believe this will allow staff to better manage the inventory movement and improve the accuracy of inventory records.

### **Audit Standards**

Internal Audit conducted this audit in accordance with generally accepted government auditing standards. Those standards require that the audit is planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. Internal Audit believes that the evidence obtained provides a reasonable basis for its findings and conclusions based on the audit objectives.

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Internal Audit has reviewed this information with the Douglas Count Purchasing Agent. Internal Audit appreciates the excellent cooperation provided by management and staff. If you have any questions or wish to discuss the information presented in this report, please contact Mike Dwornicki at (402) 444-4327.

Sincerely,

Mike Dwornicki  
Internal Audit Director

cc: Paul Tomoser  
Joni Davis  
Trent Demulling  
Donald Stephens  
Kathleen Kelley  
Joe Lorenz  
Patrick Bloomingdale  
Thomas Cavanaugh  
Kathleen Hall  
Mark Rhine